



STATE REPRESENTATIVE
KRISTEN DEXTER

WISCONSIN STATE ASSEMBLY

68TH DISTRICT

Testimony from Representative Kristen Dexter March 3, 2010

Committee on Health and Healthcare Reform In Support of Assembly Bill 639

Chairman Richards and committee members, thank you for the opportunity to testify before you today on AB 639.

During this past year I've talked with dozens of businesses of all sizes in my district about the challenges that face them as they struggle to survive in this economy. The president and vice president at one of those businesses were particularly eloquent as they described their dismay at having to cut back on health care benefits - among other things - during these past couple of years in order to keep their business afloat.

They talked about how the unpredictable and escalating cost of health insurance is hindering them from expanding their services and hiring new workers. On the other hand, they said that discontinuing health benefits entirely was an unappealing choice because they pride themselves on the close-knit, family oriented atmosphere at their company. And from a purely economic standpoint they know that by not offering health care benefits they suffer from a competitive disadvantage in attracting and retaining talented workers.

The Kaiser Family Foundation reports that fewer than half of small businesses in Wisconsin are able to offer insurance, and small businesses pay significantly more in health insurance premiums for the same benefits as those in the largest firms. But it's not just small businesses feeling the strain of rising health care costs; along with your testimony I've included an HSA coalition membership list representing over one million Wisconsin employees from businesses of all sizes.

WHO USES HSAs?

Largely, middle and low-income people do and our bill is tax relief targeted towards that group of taxpayers. A 2009 study by AHIP (America's Health Insurance Plans) found that 83% of American households using HSA based insurance have incomes less than \$75,000 and in Wisconsin, 40% of tax filers age 19-64 who reported HSA activity on their federal tax returns have average annual incomes below \$60,000.

When an employee moves from traditional health insurance to an HDHP/HSA, out of pocket expenses may go up, but the premium cost goes down enough that the savings are enough to fund the HSA account and cover most, if not all, of the deductible.

Last week a constituent visited me in the office about a matter unrelated to HSAs, but eventually the conversation turned to health care as she began talking about her son with multiple medical issues. Her family is covered by HSA based insurance and she said that her out of pocket expenses are lower than when she had traditional (PPO) insurance because the cost of premiums were high and rising.

The previously uninsured also use HSAs. 27% of HSA members in employer-based plans were previously uninsured, which translates to 2.5 million people nationwide.

HSAs primarily serve families, not just the young and healthy. One of the arguments against "incentivizing" HSA use with a tax break is that only the young and healthy who feel invincible will move toward them, leaving older, less healthy people in traditional plans who in turn drive up cost. However, **most people using HSA based policies are between the ages of 40 – 59**. Mature couples and families have the highest rates of savings and highest average year-end balances in their HSA accounts.

People who are engaged in their health use HDHP/HSAs. A legitimate concern with HSAs is that they will impoverish vulnerable populations, such as the chronically ill, and deprive them of care. However, evidence shows that the chronically ill HSA users report similar patterns of use as their chronically ill counterparts in traditional plans, especially in preventive care. In fact, chronically ill participants had lower costs, but report similar patterns of use of prescriptions, procedures, and hospitalization. Virtually all HSA based plans cover preventive care services, such as routine medical exams, immunizations, and well-baby visits, without requiring the insured to first meet the deductible.

The HSA based insurance policies offered to federal employees include similar preventive coverage as traditional policies, and they have lower co-pays for that care.

One large company in my district began to offer their employees an HDHP/HSA product a couple of years ago and their employees report changed behavior that reduces cost of care, while continuing to seek needed care. A synopsis of results of the nearly 3,000 covered members is:

- The employees are visiting their doctors for more preventive care than with other health plans;
- Virtually all (98%) of those on the HDHP are going to network doctors and clinics, which is less expensive than an out-of-network doctor or clinic;
- Employees are choosing generic drugs when appropriate – more than 65% of the prescriptions purchased in 2008 were generic;
- Inpatient cost increased, which indicates that if members need to stay in the hospital, they do;
- Outpatient cost and use declined by 9.7% overall, indicating members are using preventive care options as their first line of defense for care instead of the ER;

- Good consumer behavior marked by an increase in generic drug use, better than average use of preventive care, and higher than average employee HSA contributions.

As of January 2009, approximately 8 million people nationwide were covered by HDHP/HSA plans. This represents an increase of almost 2 million from a year earlier, and 3.5 million from the year before that. Enrollment continues to rise and in the absence of comprehensive health care and insurance reform, that rise will continue.

Whether we like the move toward high deductible plans or not – the move is occurring. Doesn't it make sense to offer the tax benefit to these lower and middle income families?

A 2009 national survey of HSA users shows that owners are overwhelmingly satisfied with their accounts. **Most importantly, 3 out of 10 respondents said they wouldn't have health insurance if it weren't for HSAs. 82% were satisfied or very satisfied, Ninety one percent said the accounts should be an option for all Americans, and 78% indicated they should be included as an option in health care reform.**

This is a notion that has been embraced by Democrats as part of the Gielow-Richards Wisconsin Health Plan of 2005. In the bill summary the authors state:

"One of the main goals is to reduce the cost of doing business in Wisconsin, by lowering both health care costs and taxes and making it easier for Wisconsin employers to create jobs, pay higher wages, and earn solid profits."

After the Senate hearing it was pointed out that the use of HSAs in that plan was part of a comprehensive reform plan, and that our bill simply addresses tax favorability for HSAs. However, I believe this bill could be the first step towards further policy changes that would respond to valid concerns about issues such as risk pools and vulnerable populations; for example, and address some of the entrenched opposition to those three simple letters: HSA. (Jackson/VanBuren)

We have an opportunity to provide incentives for employers to create health plans with an HSA component that are good for people. Employers have a vested interest in helping their employees remain in good health because they know it improves their productivity and profits.

We have an opportunity to offer a tax break for health savings accounts to the very families that so many of our legislative efforts this past year have focused on: middle and lower income families who have been particularly hard hit in this economy.

We have an opportunity to provide desperately needed breathing room to the businesses that we are so diligently working to support as our economy inches forward.

We have offered tax incentives of all flavors in all the colors of the rainbow to families and businesses during this past year. Why not this one? HSAs are similar to IRAs in

that funds are deposited into the account out of pretax income. Last week the legislature took steps to federalize Wisconsin's tax code regarding IRA to Roth IRA conversions because we were the only state in the nation that had not yet done so. Wisconsin is one of only 4 states that currently does not allow HSA tax exemption, and we should rectify that before session ends next month.

We have an opportunity – right now - to change business as usual under this dome.

Thank you once again for this opportunity to testify on behalf of our bill, and I sincerely hope we can work together to pass it.

HSA FAIRNESS COALITION

DOING WHAT'S RIGHT FOR MIDDLE-CLASS FAMILIES

To: Wisconsin Legislators

From: Alliance of Wisconsin Retailers

America's Health Insurance Plans

Anthem Blue Cross Blue Shield of Wisconsin

Business Health Care Group

Community Bankers of Wisconsin

Cooperative Network Association

Forward Janesville Inc

Fox Cities Chamber of Commerce & Industry

Great Lakes Timber Professionals Association

Green Bay Area Chamber of Commerce

Humana

Marshall & Isley Corporation

Metropolitan Milwaukee Association of Commerce

National Federation of Independent Business

Robert W Baird and Company Inc

UnitedHealthcare Services, Inc

Wisconsin Association of Health Plans

Wisconsin Bankers Association

Wisconsin Builders Association

Wisconsin Cheese Makers Association

Wisconsin Credit Union League

Wisconsin Dental Association

Wisconsin Economic Development Association

Wisconsin Farm Bureau Federation

Wisconsin Hospital Association

Wisconsin Manufacturers and Commerce

WPS Health Insurance

Wisconsin Petroleum Marketers & Convenience Store Association

Wisconsin Realtors Association

Xcel Energy

Re: SB425/AB639, Middle Class Tax Credit for Health Savings Accounts (HSAs)

Date: January 14, 2010

As members of the HSA Fairness Coalition, we support AB639 and SB425, which would exempt Health Savings Accounts from state income taxes for middle class Wisconsinites. We represent

Handout 1

TO: President Jackson
FROM: Martin Van Buren, Governor,
State of New York
DATE: January 31, 1829

The canal system of this country is being threatened by the spread of a new form of transportation known as "railroads." The federal government must preserve the canals for the following reasons:

One. If canal boats are supplanted by "railroads," serious unemployment will result. Captains, cooks, drivers, hostlers, repairmen, and lock tenders will be left without means of livelihood, not to mention the numerous farmers now employed in growing hay for horses.

Two. Boat builders would suffer, and towline, whip and harness makers would be left destitute.

Three. Canal boats are absolutely essential to the defense of the United States. In the event of the expected trouble with England, the Erie Canal would be the only means by which we could ever move the supplies so vital to waging modern war.

As you may well know, Mr. President, "railroad" carriages are pulled at the enormous speed of 15 miles per hour by "engines" which, in addition to endangering life and limb of passengers, roar and snort their way through the countryside, setting fire to crops, scaring the livestock, and frightening women and children. The Almighty never intended that people should travel at such breakneck speed.



Wisconsin

**Statement Before the
Assembly Committee on Health and Health Care Reform**

By

**Bill G. Smith
State Director
National Federation of Independent Business
Wisconsin Chapter**

**Wednesday, March 3, 2010
Assembly Bill 639**

- Mr. Chairman and members of the Committee, thank you for the opportunity to make some brief comments on behalf of the 12,000 member firms of NFIB/Wisconsin.

This important legislation, which would move our state toward conformity with federal law as it relates to the establishment of health savings accounts, has the support of Wisconsin's small business community.

We believe HSA's can do for healthcare what IRAs have done for retirement savings.

I have testified before this Committee in opposition to legislation that would pile on another costly mandated benefit to small business health plans. I have testified we have no disagreement with any specific benefit, but strongly object to mandated benefits that we have to pay for, but have no voice in choosing. Small business owners, almost by definition are independent, and they especially enjoy the individual control and the freedom that goes along with owning and operating a small business.

-And so it is with HSAs, as they too provide a level of individual control over healthcare spending, and offer freedom from healthcare decision-making often done by faceless bureaucrats, managed care companies, and insurance companies.

When HSAs were first introduced, the opposition argued they would be useful only for the wealthy and the healthy. Now that we've had a few years of experience, we know those arguments are not valid.

Not just for the wealthy and healthy, HSAs provide small business owners and their employees a useful option that often provides an affordable alternative to going with no insurance coverage.

Statement Before the Assembly Committee on Health and Health Care Reform – continued
Wednesday, March 3, 2010
Page Two

Between 1998 and 2006, NFIB Member Benefits Corporation reported over \$12 million in premiums between MSAs and HSAs. There are thousands of NFIB member employers and employees currently covered through an HSA insurance plan.

- The average age of NFIB members enrolling in individual/family plans is 39 years old; families with an average of 42 years old for both husband and wife with 2 kids.
- The average premium for an individual policy is \$145 per month or \$1,740 a year. The average premium for a family plan is \$435 a month or \$5,220 a year.
- The average individual under an HSA-type plan has about \$430 in claims.
- The average family has about \$1,770 in claims annually.

**** Savings when NFIB members have switched from a traditional small group plan to a HDHP plan with an HSA: \$42% in premium dollars.**

Attached to my testimony is a copy of an article that appeared in NFIB's member magazine *MY Business*. This article shows an example of how contributions to an HSA can even result in substantial savings for retirement. The article also quotes a Nashville NFIB member who will save 30-40% with an HSA account.

In conclusion, while we believe it is time Wisconsin caught up to the other 46 states and extend state tax advantages fully to HSA accounts, we do **support the limited approach of Assembly Bill 639** as a significant step in the right direction, but it is not where we need to be with regard to conformity with federal law.

Thank you for your consideration.

NFIB MEMBER BENEFITS THE CHOICE OF SMALL BUSINESS



Insurance Solutions

Health Options

Business Services

Watch Your Money Grow in an HSA

SHERRIE JENKINS KNOWS that traditional health plans aren't the best use of her money. After years of paying high premiums for lower deductibles, she made the switch to a Health Savings Account (HSA).

Big Savings "I found that I could save 30 to 40 percent each year with a Health Savings Account," says Jenkins, owner of The Supply Room, an office supply company based in Nashville, Tenn.

Jenkins purchased a high-deductible health plan, coupled with a tax-free HSA, to cover herself and her family. Since then, she has watched the savings add up.

"What I save on premiums I contribute to the HSA," she says. "Our deductible is \$3,800, but when are you really going to have to meet that?"

Taxpayers who have high-deductible health plans can contribute up to \$2,600 a year (\$5,150 for families) into these savings accounts, which can be used to meet the deductible and pay for other qualified medical expenses.

You only pay for what you use. That's the advantage of an HSA.

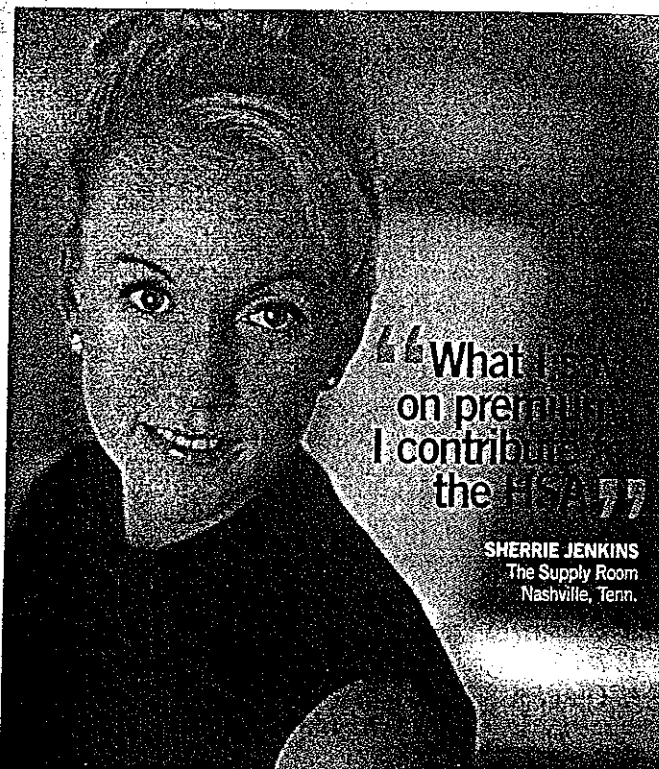
"Why would you pay \$1,000 a month for a low deductible if you're not sick? You're paying that on the off-chance you'll have a claim," says Todd Page, national sales manager with the J.L. Barnes Group. "With an HSA, you buy only the insurance you need."

Making Money Money not spent stays in the HSA and earns interest, giving healthy individuals fallback funds for later expenses.

People who are at least 65 years old may withdraw money from their HSAs for any purpose without penalty, though the money withdrawn does become taxable. If you withdraw funds before the age of 65 for non-medical expenses, you will be charged a 10 percent penalty.

"You can use the HSA to pay deductibles now, pay for medical expenses later or if you don't use it for either, consider it an Individual Retirement Account," Page says.

And Jenkins knows the best part of it all. "It works just like a regular savings account. When your money is in there, it is earning tax-deferred interest," she says. "That is definitely appealing."



Picture the Savings By making the maximum yearly contribution to your Health Savings Account, you could have substantial savings by the time you retire – even if you use more than half of your HSA funds each year:

	Individual	Family
Yearly contribution	\$2,600	\$5,150
Withdrawal for medical expenses	\$1,600	\$3,150
Yearly savings	\$1,000	\$2,000
Projected annual return	4%	4%
Years until retirement	30	30

Savings at retirement **\$58,030** **\$116,060**

■ For more information or for a health insurance quote, call NFIB HealthBenefits at (888) 488-6266, or go online to www.NFIB.com/HealthBenefits.

Savings | Access | Value | Information



Date: March 3, 2010

To: Assembly Committee on Health and Healthcare Reform

From: Holly Tuell, Humana

Re: AB 639 - HSA Tax Exemption

Good morning Chairman Richards and members of the committee, my name is Holly Tuell, and I work in Humana's products area. Thank you for holding this hearing today on AB 639. I am here because I strongly support a tax exemption for Health Savings Accounts (HSAs).

My husband and I have a high deductible health plan (HDHP) and an HSA; ever since Humana has offered them to employees, we have selected the HSA plan. We have been very pleased with our benefits and how the coverage has met our health care needs. After his five surgeries, I have taken to calling my husband my "bionic boy". All of these procedures were paid for with our HSA funds. I contribute funds to my HSA, more than what's required to receive the maximum employer match.

It is simply not fair that our medical benefits are doubly taxed. The funds in my HSA are taxed, and my employer's contribution to my HSA is taxed as wages. This just doesn't seem right, for me or anyone else. I was in customer service at Humana, before working in products, and I saw first-hand how people used their HSAs and HDHPs for their medical care. This exemption is particularly needed for those middle and lower income workers.

Finally, I wanted to share that my message is not just from me. I brought with me over 600 letters from many of my coworkers who couldn't join me today that were sent to legislators; many to members of this committee. As you can see from their letters, we are asking you to stop the tax on medical services paid for with HSAs. Thank you for allowing me to testify today. I am happy to answer any questions.

Holly Tuell
Contract Specialist
Humana



Date: March 3, 2010

To: Assembly Committee on Health and Healthcare Reform

From: Jenny St. Ours, Humana

Re: Assembly Bill 639- HSA Tax Exemption

Good morning Chairman Richards and members of the committee. My name is Jenny St. Ours and I am a business analyst at Humana. Thank you for holding a public hearing. I am here today to testify in support of AB 639, a Health Savings Account (HSA) state tax exemption for the middle class. I currently work full time for Humana, in their Middleton office. I have worked for Humana for 5 years. Prior to moving here I worked part time at Humana's DePere office while I pursued a degree in engineering at the University of Wisconsin- Fox Valley in Appleton.

Attending school, while working part time, was a great opportunity for me to further my education while earning an income. For the past five years Humana has provided my coverage, I have been covered by a high deductible health plan (HDHP) coupled with an HSA. Each year Humana, as my employer, contributed \$600 to my HSA. As you know, HSA funds can only be used for medical expenses. These funds, however, are considered taxable income by the state. I was earning under \$20,000 while working part time, but because the employer contribution, which is taxed as wages, bumped me into a higher tax bracket, it lowered the amount of tuition assistance I was eligible for. That's why I'm here today, to help change Wisconsin law. Employer contributions to HSAs should not be taxed as wages- and should not put employees at a disadvantage for income based programs.

Wisconsin is among only a handful of states that taxes HSAs. AB 639 is targeted to help lower and middle class residents. Exempting state taxes on HSAs helps me and other workers, and not the employer. I hope you will act on this legislation soon. I plan to finish my college education, and feel strongly that you should remove this unfair penalty on working students.

Thank you for the opportunity to present my testimony today. I would especially like to thank Representative Dexter and Senator Kreitlow for introducing this proposal. I encourage you to support AB 639 and I am happy to answer any questions you may have.

Jenny St. Ours
Business Analyst
Humana



Date: March 3, 2010

To: Assembly Committee on Health and Healthcare Reform

From: Dawn Grazioso, Humana

Re: AB 639 - HSA Tax Exemption

My name is Dawn Grazioso, and I work for Humana in the call center in their Middleton office. Thank you for letting me tell my story today.

I have worked at Humana for over five years, and have taken the HSA eligible plan since it's been available. The HSA makes a big difference for me and my family. I contribute at least \$200 to my HSA to get the full employer match of \$1200. That is important to me, because I am a single mom raising an 11 year old daughter. With my HSA I am able to put aside money to cover our medical costs. Every year my daughter and I get our annual checkups. All preventive care services are covered at no cost to me, even if we haven't met the plan deductible.

Humana, as my employer, puts money in my HSA. Wisconsin treats this as taxable income. This money is not wages- it can only be used for medical costs, and I don't earn it by working overtime. I feel like I am being punished by the tax on my HSA, since it is the only element of healthcare taxed by the state. Exempting HSAs for people earning less than 500 percent of the federal poverty level will bring immediate relief for those who need it most.

Thank you for the opportunity to present my testimony today. And I would like to thank the bill's authors, Representative Dexter and Senator Kreitlow, for working on fairer tax treatment of HSAs. I encourage you to support AB 639 and hope you will take action on this bill, and give the working people a break on paying taxes on their medical care.

Dawn Grazioso
Client Specialist
Humana



CITIZEN ACTION OF WISCONSIN

Organizing people to make Wisconsin
a better place to live and work

Testimony of Robert Kraig, Ph.D.
Executive Director, Citizen Action of Wisconsin
AB 639--State Tax Deductibility for Healthy Savings Accounts (HSAs)
Assembly Committee on Health and Healthcare Reform
March 3, 2010

Thank you Chairman Richards for all of your work to guarantee quality affordable health care for everyone in Wisconsin.

Citizen Action of Wisconsin is a grassroots organization with members across the state and 144 affiliated organizations. On behalf of our members, activists, and affiliates, we oppose this legislation.

We appreciate that Representative Dexter and Senator Kreitlow have made improvements to this bill over previous versions that have been debated. We also believe that both legislators have the best of intentions in introducing this legislation. Nevertheless, even with its improvements, we believe the bill is at best a non-solution to the health care crisis.

Citizen Action of Wisconsin has been at the forefront of opposition to this misguided policy. Using the latest empirical research, I will highlight some of our major concerns:

1. HSA qualified High Deductible Health Plans (HDHPs) shift unaffordable costs onto working families.

According to the 2009 Kaiser/Health Research and Education Trust Employer Benefits Survey, the benchmark survey of employer-based health insurance plans, the average deductible for a family HSA qualified HDHP policy is \$3,724 for a family policy and \$1,922 for a single policy.

Because of these high deductibles, people with HSHP/HSAs face higher out-of-pocket costs when they need medical care. In the most comprehensive study of HSAs conducted by the Government Accountability Office (GAO), a hospital stay cost 87% more for holders of HDHP/HSAs than for people who had traditional health insurance policies.

2. HSAs are the wrong direction for advancing affordable health care for all.

Encouraging HSAs undermines the bedrock assumption of health insurance—that a larger number of healthy individuals will pay into the system and spread risk in order to make it possible to provide care to a much smaller number of individuals who need extensive medical care. The landmark GAO study found that HDHP/HSAs tended to attract healthier and wealthier individuals seeking to build up tax free money in their HSAs for retirement. HSAs, unlike IRAs, are pretax money which is also not taxed upon withdrawal as long as the rules are followed. The migration of money out of the traditional insurance system will over time increase the cost of traditional insurance by diluting the risk pool. Studies by Jonathan Gruber of MIT and others have concluded that this effect will increase the number of uninsured by making insurance even more unaffordable for those who need care the most.

This critique would not pertain when HSAs are part of a comprehensive reform bill that creates large purchasing pools, such as the Gielow-Richards bill that was introduced a couple of sessions ago.

3. "Consumer Driven" Cost Reductions are Unproven

Advocates for HDHP/HSAs claim that such policies will unleash armies of cost conscious consumers to control medical costs. This assertion is based on pure theory, and quite frankly wishful thinking, and not empirical research. The GAO conducted extensive focus groups, and found that employees with HDHP/HSAs were no more likely to research costs before obtaining health care than holders of traditional policies. This is because consumers do not have the specialized knowledge needed to shop for health care the way they would shop for DVDs or cell phones.

A much more serious way to control cost is not individual consumers attempting to put pressure on large insurance companies, drug companies, and hospital chains, but large buying pools which use the collective buying power of millions of individuals to lower costs. This is the basis for all the serious health care reform plans that are currently on the table at the federal and state level.

4. The Income Caps in SB 425 are an improvement over previous HSA bills.

In the September 2007 Citizen Action of Wisconsin report, "Unfair Advantage," we showed based on actual IRS tax filings that 50% of the tax benefits from a previous version of this bill would go to households

making over \$100,000 per year and that only 20% would go to households making \$50,000 or less. In other words, those who need the most help affording health coverage get the least help from this bill.

SB 425 is superior in that it does not channel resources to the wealthiest families. (It does not allow the tax credit for tax filers making more than 500% of poverty). Nevertheless, few of the resources of this bill will go to people of middle and modest income. The fact that the tax credit is non-refundable further skews its benefits.

The fiscal notes for this bill and AB 74, HSAs without the income cap, do demonstrate Citizen Action of Wisconsin's earlier findings. In 2012, AB 74 would cost \$19.8 million, while AB 639 would cost \$9 million, showing that over half the benefits of a traditional HSA tax credit go to individuals making over 500% of poverty (\$110,250 for a family of 4).

5. Individual Market Comparisons are Misleading

Advocates of HDHP/HSAs often quote savings for non-group insurance. However these numbers are misleading because the vast majority of insured individuals get coverage from employer based group insurance policies, and because non-group insurance is so expensive even wealthier individuals often chose not to buy it. According to a Kaiser Study, "How Non-Group Health Coverage Varies with Income," people at 400% of poverty and under take up non-group insurance at rates of 25% or less, and even wealthy individuals have take up rates below 50%. This suggests that attempts to reduce the number of uninsured by giving incentives to purchase non-group policies would have to provide much greater subsidies to have any chance of succeeding. The meager tax incentives offered by this bill (\$59 to \$139 for a middle class family) would not be nearly enough incentive.

In summary, although we believe this bill is an improvement over previous versions, there are much better health care investments to be made with scarce state resources. Raising the cap on the BadgerCare Plus Core program, which now has a large waiting list, is a prime example of an investment that would do much more to extend quality affordable health coverage.



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www.cooperativenetwork.coop

March 3, 2010

To: Members, Committee on Health & Healthcare Reform

From: Bill Oemichen, President and CEO

Re: Support for Assembly Bill 639, relating to Health Savings Accounts

Cooperative Network represents 600 cooperatives, mutual insurance companies, health care purchasing plan cooperatives, and credit unions owned by approximately 2.9 million Wisconsin members. We ask for your support of Assembly Bill 639, which will allow Wisconsin residents to take state tax credits for the money they put into their Health Savings Accounts (HSA) much like the tax credit currently allowed under federal tax code.

Under federal law, certain individuals may make tax-deductible contributions to health savings accounts and withdraw the money tax-free when needed to cover routine and preventive medical care. Wisconsin is one of only four states that does not allow its residents to deduct HSA contributions from their state taxes. This is a particular burden on farmers and small business owners and employees who use HSAs to augment their health coverage.

For example, in the Farmers' Health Cooperative of Wisconsin (FHCW) 560 members have enrolled in a plan that offers a HSA as a way to hold down premiums while saving for medical expenses. This bill will give these FHCW members and other Wisconsin residents the same tax treatment for HSAs that the federal government does. In addition it will treat HSAs the same as every other health care expense by making them tax deductible.

This bill provides a measure of tax relief for middle-income individuals and households who choose to contribute to a Health Savings Account. With health care costs on the rise, this bill will encourage middle class families to prepare for health care expenses by contributing to an HSA.

Thank you for considering our request for support of this important legislation.



WISCONSIN REALTORS® ASSOCIATION

John R. Flor, Chairman, ABR, CRS, GRI, RRS and e-PRO
email: john@sixlakesrealty.com

William Malkasian, President
email: wem@wra.org

MEMORANDUM

To: Wisconsin Legislators

From: Mike Theo and Rick Chandler

Re: SB 425 and AB 639
Middle Class State Tax Credit for Health Savings Accounts (HSAs)

Date: March 1, 2010

The Wisconsin Realtors Association urges your support for 2009 Senate Bill 425 and 2009 Assembly Bill 639, which provide a middle class state tax credit for contributions to Health Savings Accounts (HSAs).

Most Realtors are self-employed independent contractors and do not receive health insurance through an employer. They either purchase health insurance and pay for other medical costs as individuals, or they receive coverage through a spouse's employer.

Many Realtors who purchase coverage as individuals choose to set up Health Savings Accounts (HSAs) to pay for their basic medical expenses in conjunction with high deductible insurance policies to cover large expenses. The money they contribute to their HSAs is deductible from their income for federal income tax purposes. However, Wisconsin is one of just four states which does not have a state income tax deduction for HSA contributions.

SB 425 and AB 639 would provide a state tax credit for contributions to HSAs by middle class workers which would parallel the federal tax deduction. It would allow people with incomes up to \$54,150 for an individual or \$110,250 for a family of four to receive a state tax credit for their contributions to HSAs.

These bills would help make medical expenses and health insurance more affordable for thousands of Realtors and other self-employed workers. It would provide fairness because individuals who choose to make HSA contributions would be able to use pre-tax earnings to pay for them, just as pre-tax dollars are used to pay for health insurance costs for people who have insurance provided through their employers.

Please feel free to contact us if you would like to discuss this issue further. Thank you.



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Preserving, protecting and promoting Wisconsin's unique quality of life... one home at a time.



To: Assembly Committee on Health and Healthcare Reform

From: Joy Lancour, Human Resources Business Consultant, Xcel Energy, 1414 W. Hamilton Ave. Eau Claire, WI 54701

Re: Assembly Bill 639, State Income Tax Credit for Health Savings Accounts

Date: March 3, 2010

Chairman Richards and members of the Committee:

On behalf of its employees, Xcel Energy respectfully submits testimony in support of Assembly Bill 639 relating to creating a state income tax credit for Health Savings Accounts. As a bit of background, Xcel Energy is the 4th largest combination electric and gas utility in the nation with operations in eight states. Wisconsin is the only state in the Company's footprint that does not allow for this state income tax deduction. Xcel Energy held its annual legislative day just last week and over 100 employees joined the Company to advocate in support of this legislation. Our issue papers are attached including the paper supporting passage of AB 639.

In 2008, Xcel Energy offered a new plan option, a High Deductible Health Plan (HDHP) with a Health Savings Account for all its non-bargaining and bargaining employees, along with two other Preferred Provider Organization (PPO) options. In the first year, approximately 80% of employees enrolled in this option and in 2009, over 90% of eligible employees enrolled as we gradually phased out the PPO options. At the beginning of 2010, over 5,000 non-bargaining employees and over 2,800 bargaining unit employees are covered under this plan. At over 21,000 covered lives (employees and their dependents), this is our largest covered group.

The HDHP has a \$2500 individual and \$5000 family in-network deductible. This deductible includes both medical expenses incurred under the plan as well as prescription drug costs. Under the HDHP, preventive care is covered at 100% and is not subject to the deductible.

Xcel Energy also offers a health management program for eligible employees. The program helps employees improve and maintain their health and well-being by focusing on individual choices that influence personal health and well-being including reimbursement for gym memberships and free nurseline programs.

Below are some of the results we have seen since converting to the HDHP/HSA option.

- Employees are practicing health care consumerism

- Employees are visiting their doctors for more preventive care than with the other Xcel Energy health plans (preventive care is covered 100 percent under the HDHP)
- Nearly 98% of those on the HDHP are going to network doctors and clinics, which is less expensive than an out-of-network doctor or clinic
- Employees are choosing generic drugs - more than 65% of the prescriptions purchased in 2008 were generic
- Inpatient cost increased, which indicates that if members need to stay at the hospital they do
- Outpatient cost and utilization declined by 9.7% overall, indicating members are using other options like Nurseline as their first line of defense for care instead of the Emergency Room
- Pharmacy cost and utilization declined by 1.3% overall in the first year
- Illness decreased overall by 9%

Good consumer behavior marked by an increase in generic drug usage and better than average use of preventive care have considerably helped control health costs.

Please support and vote in favor of Assembly Bill 639. This will allow Xcel Energy's Wisconsin employees to have the same tax benefit currently received by employees in the other states the Company serves.

Legislative Day 2010



STREAMLINED UTILITY REFUND ACT (SURE) (AB 600)

Issue

The timely recovery of fuel costs for electricity generation is a very important issue for both customers and utilities. In the last decade, the volatility in the cost of fuel has been exaggerated due in large part to extreme weather, hurricanes, railroad congestion, the transition to the Midwest Independent System Operator, and more recently, the economic downturn. These impacts have been exacerbated by current laws and regulations in Wisconsin that do not allow for quick refunds to customers when fuel prices decline, as is happening currently, or allow utilities to recover fuel costs in a timely fashion when fuel prices are increasing. For instance, in 2007, Xcel Energy was unable to recover nearly \$12 million in fuel costs. Conversely, in 2009, Xcel Energy over-collected \$18 million in fuel costs.

Wisconsin is the only state that Xcel Energy serves that has such a problem. Many other states have a "fuel clause" that adjusts monthly to true-up fuel costs.

Background

In the early 1980s, the Wisconsin Legislature enacted a law prohibiting investor-owned electric utilities, including Xcel Energy, from recovering increases in the cost of purchased power and "fuel" (coal, uranium, natural gas, etc.) used to generate electricity through an automatic fuel adjustment clause. Things were much different back then:

- Utilities relied primarily on coal and nuclear fuel which were stable costs.
- Natural gas was rarely used as a generation fuel and its price was regulated.
- Wholesale competition didn't exist.
- Merchant plants were barely on the horizon.

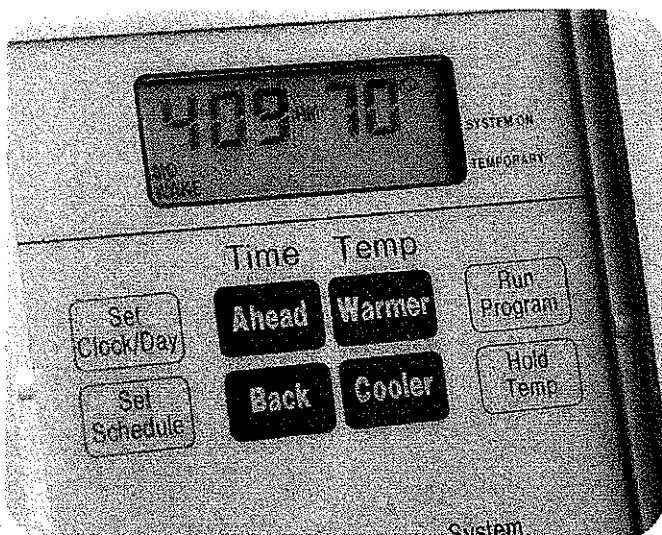
With the passage of that law, the Public Service Commission of Wisconsin (PSCW) was directed to develop rules to govern how utilities could incorporate the cost of fuel in setting electric rates. Under these "fuel rules," utilities must file requests to grant refunds to customers when they are overcharged for the cost of fuel due to rapid fuel price drops, or to recover costs when fuel prices rise quickly and customers are undercharged. There are now so many fuel-related rate changes that the PSCW has testified that statutory changes need to be made so the process can be more efficient and manageable.

Position

All concerned stakeholders, including the PSCW, Xcel Energy, other investor-owned utilities and customer groups have reached a compromise on how to streamline the process to expedite fuel cost refunds or full recovery of costs. In January 2010, the Assembly Energy and Utilities Committee unanimously voted in favor of passage of AB 600.

What we ask

Support the SURE Act and vote in favor of AB 600.



CLEAN ENERGY JOBS ACT (SB 450/AB 649)

Issue

In January 2010, the Wisconsin Legislature, on behalf of Gov. Jim Doyle, introduced the Clean Energy Jobs Act (SB450/AB649) — a legislative package to implement the Governor's Global Warming Task Force recommendations.

Background

Among other things, the Clean Energy Jobs Act would seek to:

- Enhance Wisconsin's Renewable Portfolio Standard (RPS) by accelerating the compliance deadline for the existing statewide 10 percent RPS from 2015 to 2013 and increasing the RPS to 20 percent by 2020, and 25 percent by 2025.
- Change the existing definition of biomass.
- Require utilities to purchase output from customer-owned distributed generation at a greatly inflated cost.
- Modify the nuclear moratorium in Wisconsin.
- Enhance energy efficiency and conservation efforts by gradually increasing statewide electricity savings goals up to a 2 percent annual reduction by 2015 and thereafter.

Position

Individually, and through its membership in the Clean, Responsible Energy for Wisconsin's Economy (CREWE) organization, Xcel Energy supports many aspects of the Clean Energy Jobs Act. However, we have serious reservations about some aspects of the bill including:

Enhanced Renewable Portfolio Standard

As we have consistently stated, we're generally supportive of an enhanced Renewable Portfolio Standard (RPS) in Wisconsin. However, we are seeking changes to the baseline calculation that was established in 2005 Act 141. Due to Xcel Energy's early investments in renewable energy technology, this baseline calculation requires the company to go almost 3 percent above the statewide average requirement. This additional investment for Xcel Energy's customers penalizes them for the company's early investments in renewable energy technology.

Biomass Definition

Xcel Energy opposes the proposed changes to the biomass definition. The proposed changes were not discussed within the scope of the Task Force, and we think the changes severely weaken the current definition going forward. Should an enhanced RPS be passed, energy providers will need a broad range of options to achieve the aggressive renewable energy goals as outlined in the legislation.

Advanced Renewable Tariffs

Xcel Energy strongly opposes language in the legislation mandating Advanced Renewable Tariffs for Wisconsin's investor-owned utilities. This language is a deviation from the Task Force recommendations, and we request the bill be amended to remove the language. Xcel Energy has been working to revise its existing voluntary tariff to make it more attractive to customers who want to own and operate distributed generation technology. However, mandating these contracts at an inflated price to benefit a small percentage of customers which will then be subsidized by our entire customer base would put significant upward pressure on rates. We also believe this violates the construct of 2005 Act 141, which states

that if an electric provider is meeting its statutory obligation under the RPS, additional renewable investments cannot be mandated by the PSCW.

Nuclear Language

We expressed concerns in our written testimony over proposed language regarding the nuclear moratorium that would require all of the energy produced from a new nuclear power plant in Wisconsin to be used by Wisconsin ratepayers. Given the way Xcel Energy plans and operates its system and the related multistate cost sharing agreement, if we cannot consider combined load growth of NSP-Wisconsin and NSP-Minnesota when evaluating the construction of nuclear power in Wisconsin, we would not consider a new nuclear facility. Essentially, the moratorium remains in place for our company.

Energy Efficiency and Conservation

We support the recommendations to enhance energy efficiency in Wisconsin. However, as the PSCW sets the state's budget for energy efficiency spending, we feel Joint Finance Committee oversight of that budget should be retained (it is eliminated in the proposed legislation) and the impact on ratepayers be considered. We also support the 1.2 percent funding floor for energy efficiency and conservation programs, consistent with 2005 Act 141 as suggested by the former Task Force Group. Xcel Energy is a strong proponent of energy conservation as a way to address the issue of climate change.

What we ask

- Cap the Enhanced RPS requirement at each increment as to not require any one utility to go over the required mandate.
- Maintain the existing statutory definition of biomass.
- Remove language mandating Advanced Renewable Tariffs.
- Remove the non-severability language and requirement that power generated from new nuclear plants be used in state.
- Maintain the Joint Finance Committee's oversight of state energy efficiency and conservation spending.
- Support the 1.2 percent funding floor for energy efficiency and conservation programs, consistent with 2005 Act 141, and as suggested by the former Task Force Group.



HEALTH SAVINGS ACCOUNTS (SB 425/AB 639)



Issue

In Wisconsin, individuals may deduct 100 percent of contributions they make to health savings accounts on their federal income tax filing, but may not claim a similar state income tax deduction for any amount they or their employer contributes. Thus, Wisconsin is one of only four states that tax an individual's contribution to their HSA.

SB425/AB639 would allow for a tax credit to those with current income maximums of \$54,150 for an individual and \$110,250 for a family of four.

Background

All employees participating in Xcel Energy's health insurance program are eligible to participate in a HSA to save money, tax-deferred, for qualified health-related costs.

In 2008, Xcel Energy began offering a new plan option, a High Deductible Health Plan (HDHP/HSA) with a Health Savings Account.

The HDHP includes a \$2,500 individual and \$5,000 family in-network deductible. This deductible includes both medical expenses incurred under the plan (i.e. doctor visits and lab tests) as well as prescription drug costs under the plan. Under the HDHP, preventive care is covered at 100 percent and is not subject to the deductible.

Position

Support changes to HSAs that would make contributions tax deductible. This is an important benefit and one that allows employees to make better health care related decisions.

What we ask

Support and vote in favor of SB 425/AB 639.

THANK YOU!

Xcel Energy's employees and retirees would like to thank the dedicated public officials who serve the state of Wisconsin. We appreciate your efforts in the legislative, executive and judiciary branches to make this a better state for our citizens, businesses and communities. We are proud of the work you do and look forward to working with you on important issues in the future.

For more information on Xcel Energy please contact:

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WMC

WISCONSIN'S BUSINESS VOICE SINCE 1911

To: Chairperson Jon Richards
Members of the Assembly Committee on Health and Healthcare Reform
From: R.J. Pirlot, Director of Legislative Relations
Date: March 3, 2010
Subject: **Support Assembly Bill 639**, relating to creating a nonrefundable individual income tax credit for certain amounts relating to health savings accounts that may be deducted from, or are exempt from, federal income taxes.

Rising health care costs are a major concern for businesses, big and small, as they strive to stay competitive, whether doing business regionally, nationally or globally. Many Wisconsin businesses and their employees use health savings accounts as a tool to help stem the rate at which their health care costs are growing.

Health savings accounts can give employees a strong financial stake in their health care purchasing decisions, giving them incentives to aggressively manage their health care costs by becoming more active, engaged consumers of health care. Health savings accounts are owned by the employee and, as such, may be carried over from year-to-year and from employer-to-employer.

Under federal law, contributions to health savings accounts are deductible from income taxes and withdrawals, when used for medical care, are tax-free. Wisconsin, however, is one of four states which still taxes health savings accounts.

Under Assembly Bill 639 (AB 639), employees with a health savings account may claim a nonrefundable income tax credit equal to 6.5 percent of the allowable amount that the individual claims as a federal tax deduction for a contribution to a health savings account or 6.5 percent of the federal tax-exempt earnings relating to an HSA, or both. The credit may not be claimed, however, by a single person, head of household, or married person who files a separate return if the person's Wisconsin adjusted gross income (AGI) exceeds 500 percent of the federal poverty level, or AGI in excess of 500 percent of the federal poverty level in the case of a married couple who files a joint return. This means employees may have an income up to \$54,150 for an individual and \$110,250 for a family of four and still claim the credit.

Wisconsin Manufacturers & Commerce respectfully requests you support AB 639.